

EU VAT increases sweep Europe

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In a stark warning for the upcoming emergency Budget on 22 June, VAT rates in Europe are being ratcheted up as governments wrestle with ballooning deficits and panicked financial markets. This fulfils a long-term shift of the tax burden from business to consumption in an attempt to hold onto internationally mobile corporations.

Globalisation drives indirect tax shift

Over the past five years, Western European countries have been faced with stiff competition from low-tax territories – from new EU accession states and emerging countries. This led to a number of VAT rises to fund cuts in job-destroying business and payroll taxes.

Leading the charge was Germany, which increased its VAT rate by 3% to 19% in 2007.

However, the spiralling inflation of 2007 and then the credit crunch in 2008 cut short these plans as treasuries fretted over the impact on the vital consumer sector.

Spiralling government deficits reignite VAT hikes

With two years of massive injections of liquidity into countries desperate to keep their economies from meltdown, the EU now faces unprecedented debts. Financial markets, always alert to unbalanced markets ripe for speculative profits, have pounced.

As the EU vacillated on co-ordinated efforts to underpin weak members, the markets punished the dithering through higher sovereign bond yields. Over the past 12 months, this brought countries such as Hungary, Latvia, Lithuania and Ireland to their knees with crippling borrowing costs and forced them into VAT hikes.

In the eye of the latest economic panic surrounding the EU peripheral countries, Portugal and Greece have had to increase their VAT rates by 1% and 4%, respectively. Spain has scheduled an increase of 2% for July 2010.

It would be good for the UK, honest

From 1 July, this will leave the UK with the second lowest VAT rate in Europe. Only tax-shy Luxembourg has a lower rate at 15%.

Given the UK's forecast deficit of £163 billion, a VAT rise seems an obvious safe bet. A 2.5% VAT increase to 20% would raise about £15 billion – less than one quarter of the unfunded structural deficit.

Many economists would be pleased too. It is widely recognised that a VAT rise would help with the required rebalancing of the UK economy away from high-street powered consumerism towards level-headed investment and savings. The IMF has encouraged this view last week, suggesting the UK and others cut exemptions on clothing and food.

The only question is when it will be implemented – 1 July 2010 or, perhaps, 1 January 2011? An early Christmas present from the new Chancellor?

Movement in European VAT rates over the last 31 months

	Jan 2008	% change	Jul 2010
Austria	20.0%	0↔	20.0%
Bulgaria	20.0%	0↔	20.0%
Belgium	20.0%	0↔	20.0%
Cyprus	15.0%	0↔	15.0%
Czech Republic	19.0%	1↑	20.0%
Denmark	25.0%	0↔	25.0%
Estonia	18.0%	2↑	20.0%
Finland	22.0%	1↑	23.0%
France	19.6%	0↔	19.6%
Germany	19.0%	0↔	19.0%
Greece	19.0%	4↑	23.0%
Hungary	20.0%	5↑	25.0%
Ireland	21.0%	0↔	21.0%
Italy	20.0%	0↔	20.0%
Latvia	18.0%	3↑	21.0%
Lithuania	18.0%	3↑	21.0%
Luxembourg	15.0%	0↔	15.0%
Malta	18.0%	0↔	18.0%
Netherlands	19.0%	0↔	19.0%
Poland	22.0%	0↔	22.0%
Portugal	21.0%	0↔	21.0%
Romania	19.0%	0↔	19.0%
Slovakia	19.0%	0↔	19.0%
Slovenia	20.0%	0↔	20.0%
Spain	16.0%	2↑	18.0%
Sweden	25.0%	0↔	25.0%
UK	17.5%	0↔	17.5%
Switzerland	7.6%	0↔	7.6%

Current European VAT rates (May 2010)

